

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P.O. Box 942850  
Sacramento, CA 94250-5878

DATE: January 16, 2003

PAYROLL LETTER # 03-004  
(CIVIL SERVICE ONLY)

TO: All Agencies in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief  
Personnel/Payroll Services Division

RE: **ACCOUNTS RECEIVABLE (AR) OFFSET - LEAVE CREDIT USE PROCESS**

This Payroll Letter provides instructions for the Accounts Receivable (AR) - Leave Credit Use process that is currently available for Bargaining Unit 06 employees per contract Section 15.12. A unique Earnings ID has been established and coding instructions are provided for using leave credits to issue pay via form STD. 671 to clear outstanding ARs.

#### PAYMENT REQUESTS

The Earnings ID used to request a payment on PIP is GS. After reviewing the PIP Exceptions in the Payroll Procedures Manual, Section G 102, complete items 15 - 17 and 19 - 21 as follows:

- 15 - Earnings ID (Complete)
- 16 - Days (blank)
- 17 - Hrs/Hdth (blank)
- 19 - Salary Rate (blank)
- 20 - WWG/FLSA (blank)
- 21 - Gross (Complete)

These payments are not subject to retirement contributions. They are taxable at the flat tax rate, and are subject to Medicare tax withholding, when applicable. Sufficient leave credits must be deducted to ensure that the net of the payment will offset the AR(s) in question.

#### CALCULATION

To determine the number of leave credits an employee must cash out in order to generate monies equal to the net of the AR(s) the following calculations must be used:

1. Determine the hourly salary rate by dividing the salary rate by 182 (7k average).

Example:

Salary rate of \$4759 divided by 182 equals \$26.14835 hourly rate

2. Determine the necessary gross to be cashed out to provide a net equal to the AR by dividing the AR net by the Maximum Withholding Factor of 65.55% if the employee pays Medicare and 67% if the employee does not pay Medicare.

Example:

Medicare Formula-.....	65.55%
Gross. ....	100%
Minus Federal Tax .....	27%
Minus State Tax. ....	6%
Minus Medicare .....	1.45%
Net .....	65.55%

3. Take the AR amount due and divide it by the formula percentage determined above to calculate the gross amount of the payment needed to equal the AR net amount. Then divide the result by the net hourly rate to compute the hours of leave to be cashed out.

Example:

AR amount due of \$430.00 divided by 0.6555 equals \$655.99. This amount divided by an hourly rate of \$26.14835 equals 25.08724 hours. These hours would round to 25.25 hours of leave credits to be cashed out according to the breakdown of fractional time listed below.

.01 - .25 = .25  
.26 - .50 = .50  
.51 - .75 = .75  
.76 - .99 = 1.00

#### DIRECT DEPOSIT

The employee's Direct Deposit will need to be canceled before the employee can take advantage of the process. Once the payment has issued to offset the AR(s) the employee may request to re-enroll in the Direct Deposit program. Please refer to PPM Section J 012 and 003, respectively, for further instructions.

#### COLLECTION METHODS

Please be aware that the original collection methods, via cash payments or installments via payroll deductions, are still available for these employees. For additional information, refer to PPM Section I 011.

#### AR COLLECTION REPORTING

No changes have been made in the procedures for reporting ARs satisfied via agency collection. Please refer to PPM Section I 029 and 178-179 for further information and instructions.

A CLAS Letter and PPM revision for this process will be forthcoming.

Payroll questions regarding the AR Offset - Leave Credit Use process should be directed to Sandra Young at (916) 324-1293 or email syoung@sco.ca.gov. Questions regarding CLAS procedures for the AR Offset - Leave Credit Use process should be directed to the CLAS Liaison Unit at (916) 327-0756.

JH:SJY:PMAB